



JV CAPITAL SERVICES PVT. LTD

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Elecon Engineering

CMP: 93.75

BUY

INDUSTRY: Engineering

RISK PROFILE: Medium

TARGET: 160

Data Table

CMP (Rs)	93.75
Target price(Rs)	160
Upside (%)	71
52 Week H/L (Rs)	110.80 / 63.55
P/E Ratio	13.32
P/BV Ratio	2.71
Dividend Yield %	1.58
Market cap (Rs. Cr)	870.47
6m Avg vol (nos)	217491
No. of o/s shares (nos)	50416272
FV (Rs)	2.00
NSE code	ELECON

Elecon Engineering Company Ltd is a leading manufacturer of mission critical Material Handling Equipment and Power Transmission Solution. The company designs, manufactures and markets its sophisticated range of products through its network spread across India and through foreign equity participating companies in Singapore, Australia, South Africa, China and Dubai in the Middle East. Its has a diversified client base spreading over core sectors like Steel, Satellites, Sugar, Cement, Power, Chemical, Port mechanization etc.

Key Investment Themes

Strong order inflows in the current financial year

Elecon has seen robust growth in the order inflows in the first of month of the current financial year. It has already received orders worth Rs.431 Crore as per its announcement to BSE and is bidding for projects worth Rs.1500 Crore. Thus one can expect order inflow to gain traction on the back of strong bids. Elecon had order back log of ~Rs.1200 Crore at the end of Q4FY10. Despite this, Elecon's Order backlog is at a two year low. Going forward, apart from power sector, one can expect order inflow from Cement, steel & port sectors.

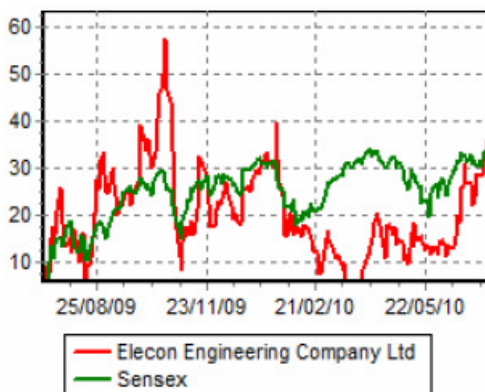
Strong pedigree and execution capabilities in Material Handling

Elecon has strong all around capabilities, experience & diversified skills in material handling equipment (MHE) for most industry verticals like power, steel, minerals & ports. We expect total market opportunity available with MHE industry to be about Rs.5700 crore by 2015-20. Armed with engineering prowess and strong skills coupled with diversified knowledge, Elecon is all set to tap this huge opportunities.

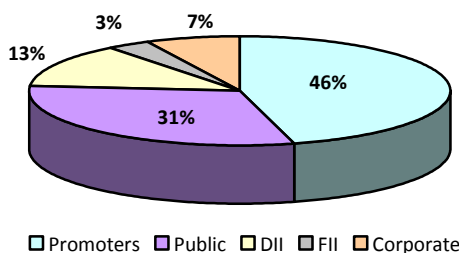
Rebound in industrial activity sustainable

IIP Index is testimony to the positive trends in the Indian economy. After a decline to negative territory for most part of FY09-10, IIP has started upwards journey from Oct-09 with significant contribution from the Manufacturing segments. We have achieved sustainable double digit growth since Oct-09 registering 10.3%, 11.7%, 17.6%, 16.7% & 15.1% growth in Oct-09, Nov-09, Dec-09, Jan-10, Feb-10 respectively. Where IIP has lodged double digit growth, capital goods has outperformed by registering a growth of 11%, 11.8%, 38.8%, 56.6% & 44.4% in Oct-09, Nov-09, Dec-09, Jan-10, Feb-10. We expect all-around buoyancy in the economy with IIP expected to remain strong during FY11 & FY12.

Relative Performance Analysis



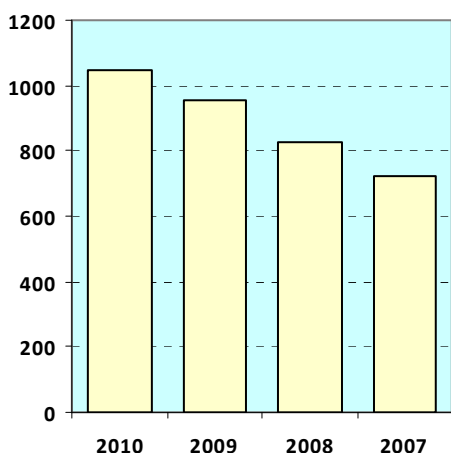
Shareholding Pattern



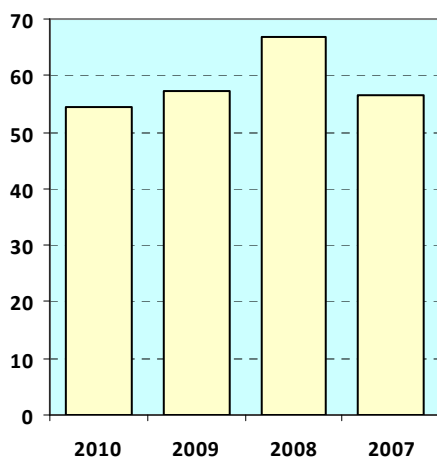
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Business Overview

The company has two main business divisions – Material Handling Equipment (MHE) and Industrial Gears.



Sales have grown consistently, even in the economic slowdown, indicating strong demand for its products



Profits declined in FY2010 and in FY2009 due to higher costs of input materials and higher interest cost

- **Material Handling Equipment (MHE)** caters to the needs of industries with wide range of products like: stacker reclaimer, wagon tippler, crusher & impactors, tripper, screens pulley, conveying system etc. These cater to the needs of core sector like Power, Steel, Ports & cements. Company derives majority of its revenue from MHE division.
- **Industrial Gears** produces different types of gear boxes like helical gears, worm gears, special gears, planetary gearboxes, coupling & geared boxes. It caters to the needs of industries like sugar, defense, wind energy, MHE, fertilizers etc.

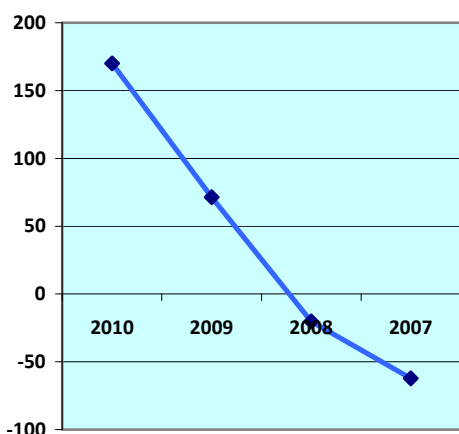
Business Environment

Bulk material handling (BMH) is an engineering field, centered on the design of equipments used for transportation of material such as ores in loose and bulk form. BMH system are typically composed of moveable items of machinery such as stackers, reclaimers, un-loaders, conveyer belts, hoopers, & diverters, combined with storage facilities such as stockpiles, stockyards etc. The purpose of a BMH facility is to transport material from one of several locations to an ultimate user. BMH is mainly use at processing facilities (likes of iron & steel, thermal power plant), port sites (loading & or unloading of ores & minerals). On an average, MHE constitute 5-10% of total project cost. According to estimates MHE is likely to be a Rs.5700 Crore opportunity by 2020, which is likely to be driven by:

Power - India's Power capacity has increased seven times from 18,878 MW in 1956 to 1,32,000 MW by end of 11th five year plan. Approximately 40,000 MW of power generation is likely to be added by FY12E. Around 70% of total power generation is expected to come from coal & lignite at an investment of Rs.12,600 Crore based on an approximate assumption of Rs.4.5 Cr/MW of capex which gives an opportunity of Rs.1260 crore by 2012 & Rs.30,000 Crore by 2015 (based on assumption 10% of total cost goes to MHE).

Ports - Indian port capacity is likely to be doubled by FY14 to 150 crore tones from the current capacity of about 75 crore tones. This is likely to entail an estimated capex of Rs.60,000 Crore. According to Industry sources, MHE constitutes 11-12% of total port capex which includes cranes, BMH plants etc. which translates into a market opportunity of nearly Rs.6600 – Rs.7200 crore for port equipment division.

Steel – In the coming years, metals are likely to be the bulwark on which the infrastructure growth is likely to be built. According to



Sharp increase in cash flow from operations from FY09 which continued even in FY10 shows the business has matured from an investment phase to a phase of incremental returns

industry sources, one can expect Rs.2,62,000 crore worth of investment in steel sector to be added over next ten years. As a thumb rule, 5-7% of total capex is the estimated market opportunity of MHE players which translates into an opportunity of Rs.12,500 –Rs.18,000 crore, which includes various opportunities in various segments such as coal handling, ash handling coke oven battery, sintering etc.

Robust growth in order inflows

Company has seen robust growth in the order inflows in the first of month of the current financial year. It has already received orders worth Rs.431 Crore as per its announcement to BSE and is bidding for projects worth Rs.1500 Crore. We expect the order inflows to gather momentum in FY11 as evident from the given facts. It has order back log of ~Rs.1200 Crore at the end of Q4FY10. Despite this, Elecon's Order backlog is at a 2 year low. Going forwards, apart from power sector, management expects orders mainly from Cement, steel & port sectors.

Some of the recent orders won

- Elecon secured an order worth Rs.32.77 crore from Manikgarh Cement for design and engineering, manufacturing, testing, supply, erection and commission of material handling equipments and other equipments.
- Elecon secured an order worth Rs.51.92 crore from BGR Energy for supply of equipment.
- Elecon secured another order of Rs.208.50 crore from BGR Energy for design and engineering, manufacturing, testing, supply, erection and commission of material handling equipments and other equipments.

Huge opportunity in Material Handling Equipment Sector

Elecon Engineering has strong all around capabilities, experience & diversified skills in material handling equipment (MHE) for most industry verticals like power, steel, minerals & ports. With huge opportunity starting to go under way in the key industry like steel, power & ports etc. the MHE industry stands to gain immensely from capacity addition. We expect total market opportunity available with MHE industry to be about Rs.5700 crore by 2015-20. Armed with engineering prowess and strong skills coupled with diversified knowledge, Elecon is all set to tap the Rs.5700 crore opportunities. We believe that, Elecon with its all round capabilities, diversified skills and ability to develop products and solution across all industry verticals, is likely to be amongst the key beneficiary of the buoyancy in the MHE Industry.

With Planned investment of 15960 Mw by FY17, already announced by Government of India under UMPP, we expect an investment of Rs.80,000 crore for next 7 years. MHE division to attract (industry sources) min of 6-10% of the foreseeable capex which translate into opportunity of Rs.5000-8000 Crore We believe that MHE package would constitute around 6-10% of total project cost. Although, the company has not won a single project

from UMPP, but going forward, management expects some bidding in UMPP.

Rebound in industrial activity, a positive

IIP Index indicates strong rebound in Indian economy. After a decline to negative territory for most part of FY09-10, IIP has rebounded sharply from Oct-09 with significant contribution from the manufacturing sector. The IIP has had sustainable double digit growth since Oct-09. Where IIP has lodged double digit growth, capital goods has outperformed by registering a growth of 11%, 11.8%, 38.8%, 56.6% & 44.4% in Oct-09, Nov-09, Dec-09, Jan-10, Feb-10. We expect all-around buoyancy in the economy with IIP expected to remain strong during FY11 & FY12.

Players in the power, steel and cement industry are some of the major clients for Elecon. A sharp turnaround in the domestic economy during FY10, indicated by robust IIP growth numbers, which is likely to be sustained over the medium term on the back of improved corporate profitability and significant increase expected in fresh capex spending from core infrastructure sectors. This is good for prospects of Elecon Engineering.

Wind power business – Future growth driver

Elecon has recently ventured into manufacturing wind turbine generators (WTG), which has a tremendous potential for future growth in the coming years.

Installed wind power capacity in India stands at 10,500MW, of the country's total of 15.59GW generation capacities. The total potential of the wind power generation in India is estimated to be around 45GW. While no significant contribution is expected from wind business during FY10, we are positive on its prospects during the next two years and expect revenues to start accruing to Elecon from FY11E onwards.

Valuations

At the CMP of Rs.93.65 the stock trades at a P/E ratio of 13.32. The company is likely to perform well in FY11 on back of reasons outlined above (viz. good order inflows, industrial rebound, huge sectoral opportunity etc). We expect the company to report FY11 EPS of Rs.13 per share. We expect the stock to trade around a P/E ratio of 12.5 which is close to its historical averages. This gives us a price target of Rs.162.5 for the stock.

<i>Rs. crore</i>	2011E	2010	2009	2008
Net Sales	1203.33	1046.37	955.06	826.44
Other Income	0.00	16.83	0.73	0.00
Total Income	1203.33	1071.14	964.64	836.22
Total Expenditure	986.5	896.82	806.02	695.92
PBIDT	216.83	174.32	158.62	140.30
Interest	55.98	50.89	48.37	27.43
Depreciation	39.74	33.12	22.15	14.20
Tax	21.82	16.66	18.12	29.32
PAT (after extraordinary items)	99.29	54.47	57.44	66.65
EPS (adjusted) (Rs/share)	13.00	7.13	6.19	7.24
Equity	18.57	18.57	18.57	18.57

Source: Capitaline, JV Capital estimates

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Risk Profile

Low Risk: Fundamentally sound companies, with low beta. Expected market out performance is 0-10%

Medium Risk: Expected market out performance is 10-20%. Preferably for investors with a maximum time frame of about 6 months.

High Risk: High Beta Stocks, expected market out performance is more than 20%, preferably for the investors willing to take advantage of market momentum & are aggressive in nature.

Disclaimer Appendix

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